M&As: Where We've Been, and Where We (Probably) Are Headed

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NEW DIRECTION PARTNERS

The pace is brisk, and nothing suggests it won't stay that way. But, print business owners should take stock of the factors that have brought the state of the M&A market to where it presently is.

Hindsight tells us that even a pandemic couldn't stop the pace of mergers and acquisitions in the printing industry. Can anything? Reviewing what has happened so far probably is the best guide to what buyers and sellers can expect in the near future.

Before COVID-19 hit, the momentum for M&As was already building. With many printing and packaging firms enjoying their best first quarters ever in the first three months of 2020, the year was well on its way to becoming a blockbuster for dealmaking. Things inevitably slowed down as the economy went into lockdown. But by the second half of 2021, a happy blur of M&A activity had returned, almost as if nothing had stood in its way.

That is still the pace the M&A market is keeping up, and we see it continuing to drive the three main types of acquisition for strategic buyers:

• the classic tuck-in, aimed at adding sales volume and filling excess capacity in mature markets;

• acquiring another company to diversify production capabilities and increase efficiency;

• acquiring in order to reposition the buyer's company for something new – for example, the client of ours that wanted to branch out from its healthy but mature insert printing business into broader areas of opportunity.

Factors in Favor

How long things can go on like this depends on the interplay between macro factors – outside forces that influence the industry – and micro factors taking place within it. The macros continue to favor M&As: interest rates that are still at historically low levels; a generally healthy economy; the willingness of banks to lend money for funding transactions; and the strong performance of publicly traded companies, despite stock market stumbles earlier in the year.

At the micro level, we see an aging base of print company owners who naturally have begun to think about selling and moving on. We also see the further division of printing companies into haves and have-nots, with the former as potential acquirors of the latter.

As much as anything else, the have / have-not dynamic is what causes a fragmented industry like printing to pull itself together in a new and more efficient critical mass. Haves are businesses that transform themselves from printing companies into communications providers by surrounding their basic printing services with production inkjet, web-to-print workflows, 1:1 marketing, creative services, data and ROI analytics, and e-commerce through customized portals.

Have-nots, on the other hand, mostly pursue commodity work with aging offset equipment. As prospective acquirors of companies like these, the haves won't be interested in perpetuating the have-nots' stagnant business model. But, when the haves like what they see in terms of active accounts they can fold into their existing operations, chances are always good that mutually beneficial deals can be struck.

Haves don't automatically or instantly outperform have-nots – it takes time to develop the capabilities noted above and to make investments in them pay off. But once that happens, the haves quickly secure their places as the printing industry's profit leaders.

GDP Growth in the Rearview

Economic research by PRINTING United Alliance indicates that thanks largely to the strong performance of the haves, the industry grew by 7% in 2021 and is on track to come close to that in 2022. The industry's present rate of growth exceeds that of GDP, a crossover that we have not seen for a very long time.

But, PRINTING United Alliance also forecasts that growth in the second half of the year will be considerably slower than in the first six months. While there is no such thing as an infallible prediction, it's fair to say that global turmoil, stock market instability, cost inflation, and the scarcity of raw materials could land the industry in a rough patch at some point this year or next year, with a potential dampening effect on the pace of M&As.

Whether the rough patch will take the form of a temporary retrenchment or a longer-lasting full recession is impossible to know. But, we think that whatever pressure it places on the M&A market for printing companies will only be transient.

The macro factors – aging ownership, fragmentation, haves vs. have-nots – will still be there to drive decision-making. Financial acquisitions funded by private equity (PE) capital could fall off somewhat in a contracting economy, but the motivation of strategic buyers will be as keen as ever.

Power of Private Equity

And to be clear about PE investors, they aren't going anywhere, recession or no recession. Financial acquisitions by these players accounted for half of all the M&A transactions we were involved in last year, and we don't foresee any significant loss of interest on their part in the months ahead.

This is because PE investors appreciate the opportunities that the industry's macro trends create for them. They like being able to construct multi-pronged acquisition strategies that let them purchase a have as a platform to which they then can add the accounts and assets of have-nots. They also like the fact that deals for printing companies don't bind them to the sky-high multiples of EBITDA that come with acquiring tech firms.

These are all reasons why they don't allow short-term negatives to come between them and the ROI they believe they can extract from the industry by acquiring selected pieces of it. The clearest evidence of their commitment has to be the transaction we recently helped to close on behalf of a large, well-known commercial printing company that a PE investor wanted to acquire a majority interest in.

The PE firm was a brand-new entity, and its prior exposure to printing was nil. Nevertheless, it saw nothing but opportunity in the broadly-based capabilities of the printing business it had set out to acquire. If that isn't a testament to the kind of faith that smart money is willing to place in the industry right now, it's hard to imagine what else would be.

When It's Time, It's Time

It's also hard to see what could derail the train for strategic and financial M&As in the immediate future. We all understand, for example, that the tight market for printing papers is a very real concern, especially to small shops that don't have the purchasing power of larger companies. But, it's also true that printing isn't the only industry facing material shortages due to supply chain interruptions, which don't last despite the near-term pain they cause.

This leads us back to our perennial advice about timing. The pace of print industry M&As is healthy, and nothing right now suggests that it won't stay that way. But, when owners put off their decisions about buying or selling, things can and do change. Waiting out the market seldom leads to taking full advantage of it.

Because the timeline of planning and executing a successful M&A transaction can run to months, the groundwork should begin at the moment when conditions for the deal are most favorable – not when they have started to deteriorate. If you are a print business owner who is thinking about acquiring or being acquired, act now to get the process off to its best possible start.

New Direction Partners is an investment banking and financial advisory services formed by Peter Schaefer, Paul Reilly, Jim Russell and Tom Williams to serve the printing and related industries. Services include merger advisory services through the representation of selling shareholders as well as buy side representation, valuation services, financing and refinancing efforts, turnaround and restructuring services, and temporary/interim management consulting. To learn more about New Direction Partners, visit New Direction Partners' website at www.newdirectionpartners.com.